

**LIBERTY MEDIA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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and uncertainty surrounding government legislation of Internet gambling which Liberty believes the market perceives as potentially impacting FUN's skill gaming business. In connection with its annual evaluation of the recoverability of FUN's goodwill, Liberty received a third-party valuation, which indicated that the carrying value of FUN's goodwill exceeded its market value. Accordingly, Liberty recognized a \$111 million impairment charge related to goodwill.

- (4) Other activity for QVC represents Liberty's acquisition of shares of QVC common stock held by employees and officers of QVC. Amounts recorded as goodwill represent the difference between the price paid for such minority interest and the carrying amount of the minority interest less amounts allocated to other intangible assets.

*Intangible Assets Subject to Amortization*

Intangible assets subject to amortization are comprised of the following:

	December 31, 2006			December 31, 2005		
	Gross carrying amount	Net accumulated amortization	Gross carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
	(amounts in millions)					
Distribution rights	\$2,699	(981)	1,718	2,628	(788)	1,840
Customer relationships	2,545	(581)	1,964	2,356	(393)	1,963
Other	699	(471)	228	543	(371)	172
Total	<u>\$5,943</u>	<u>(2,033)</u>	<u>3,910</u>	<u>5,527</u>	<u>(1,552)</u>	<u>3,975</u>

Amortization of intangible assets with finite useful lives was \$463 million, \$453 million and \$456 million for the years ended December 31, 2006, 2005 and 2004, respectively. Based on its amortizable intangible assets as of December 31, 2006, Liberty expects that amortization expense will be as follows for the next five years (amounts in millions):

2007	\$462
2008	\$430
2009	\$389
2010	\$363
2011	\$352

*Impairment of Long-lived Assets*

Statement 144 requires that the Company periodically review the carrying amounts of its property and equipment and its intangible assets (other than goodwill) to determine whether current events or circumstances indicate that such carrying amounts may not be recoverable. If the carrying amount of the asset is greater than the expected undiscounted cash flows to be generated by such asset, an impairment adjustment is to be recognized. Such adjustment is measured by the amount that the carrying value of such assets exceeds their fair value. The Company generally measures fair value by considering sale prices for similar assets or by discounting estimated future cash flows using an appropriate discount rate. Considerable management judgment is necessary to estimate the fair value of assets. Accordingly, actual results could vary significantly from such estimates. Assets to be disposed of are carried at the lower of their financial statement carrying amount or fair value less costs to sell.

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***Minority Interests***

Recognition of minority interests' share of losses of subsidiaries is generally limited to the amount of such minority interests' allocable portion of the common equity of those subsidiaries. Further, the minority interests' share of losses is not recognized if the minority holders of common equity of subsidiaries have the right to cause the Company to repurchase such holders' common equity.

***Foreign Currency Translation***

The functional currency of the Company is the United States ("U.S.") dollar. The functional currency of the Company's foreign operations generally is the applicable local currency for each foreign subsidiary. Assets and liabilities of foreign subsidiaries are translated at the spot rate in effect at the applicable reporting date, and the consolidated statements of operations are translated at the average exchange rates in effect during the applicable period. The resulting unrealized cumulative translation adjustment, net of applicable income taxes, is recorded as a component of accumulated other comprehensive earnings in stockholders' equity.

Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses which are reflected in the accompanying consolidated statements of operations and comprehensive earnings as unrealized (based on the applicable period-end exchange rate) or realized upon settlement of the transactions.

***Revenue Recognition***

Revenue is recognized as follows:

- Revenue from retail sales is recognized at the time of shipment to customers. An allowance for returned merchandise is provided as a percentage of sales based on historical experience. The total reduction in sales due to returns for the years ended December 31, 2006, 2005 and 2004 aggregated \$1,554 million, \$1,375 million and \$1,165 million, respectively.
- Programming revenue is recognized in the period during which programming is provided, pursuant to affiliation agreements.
- Revenue from sales and licensing of software and related service and maintenance is recognized pursuant to Statement of Position No. 97-2, "*Software Revenue Recognition*." For multiple element contracts with vendor specific objective evidence, the Company recognizes revenue for each specific element when the earnings process is complete. If vendor specific objective evidence does not exist, revenue is deferred and recognized on a straight-line basis over the remaining term of the maintenance period after all other elements have been delivered.
- Revenue relating to proprietary films is recognized in accordance with Statement of Position (SOP) 00-02, *Accounting by Producers or Distributors of Films*. Revenue from the theatrical release of feature films is recognized at the time of exhibition based on the Company's participation in box office receipts. Revenue from television licensing is recognized when the film or program is complete in accordance with the terms of the arrangement, the license period has begun and is available for telecast or exploitation.

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***Cost of Sales***

Cost of sales primarily includes actual product cost, provision for obsolete inventory, buying allowances received from suppliers, shipping and handling costs and warehouse costs.

***Advertising Costs***

Advertising costs generally are expensed as incurred. Advertising expense aggregated \$112 million, \$45 million and \$47 million for the years ended December 31, 2006, 2005 and 2004, respectively. Co-operative marketing costs are recognized as advertising expense to the extent an identifiable benefit is received and fair value of the benefit can be reasonably measured. Otherwise, such costs are recorded as a reduction of revenue.

***Stock-Based Compensation***

***FASB Statement 123R***

As more fully described in note 13, the Company has granted to its employees and employees of its subsidiaries options, stock appreciation rights ("SARs") and options with tandem SARs to purchase shares of Liberty common stock (collectively, "Awards"). In addition, QVC had granted combination stock options/SARs ("QVC Awards") to certain of its employees. In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004), "*Share-Based Payment*" ("Statement 123R"). Statement 123R, which is a revision of Statement of Financial Accounting Standards No. 123, "*Accounting for Stock-Based Compensation*" ("Statement 123") and supersedes Accounting Principles Board Opinion No. 25, "*Accounting for Stock Issued to Employees*" ("APB Opinion No. 25"), establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on transactions in which an entity obtains employee services. Statement 123R generally requires companies to measure the cost of employee services received in exchange for an award of equity instruments (such as stock options and restricted stock) based on the grant-date fair value of the award, and to recognize that cost over the period during which the employee is required to provide service (usually the vesting period of the award). Statement 123R also requires companies to measure the cost of employee services received in exchange for an award of liability instruments (such as stock appreciation rights that will be settled in cash) based on the current fair value of the award, and to remeasure the fair value of the award at each reporting date.

The provisions of Statement 123R allow companies to adopt the standard using the modified prospective method or to restate all periods for which Statement 123 was effective. Liberty has adopted Statement 123R using the modified prospective method.

The Company adopted Statement 123R effective January 1, 2006. In connection with such adoption, the Company recorded an \$89 million transition adjustment, which is net of related income taxes of \$31 million. Under Statement 123R, the QVC Awards were required to be bifurcated into a liability award and an equity award. Previously, under APB Opinion No. 25, no liability was recorded. The transition adjustment primarily represents the fair value of the liability portion of the QVC Awards at January 1, 2006. The transition adjustment is reflected in the accompanying consolidated statement of operations as the cumulative effect of accounting change. Also, in connection with the adoption of Statement 123R, the Company has eliminated its unearned compensation balance as of January 1, 2004

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of \$98 million against additional paid-in capital. Compensation expense related to restricted shares granted to certain officers and employees of the Company continues to be recorded as such stock vests.

Included in selling, general and administrative expenses in the accompanying consolidated statements of operations are the following amounts of stock-based compensation (amounts in millions):

Years ended:	
December 31, 2006	\$67
December 31, 2005	\$52
December 31, 2004	\$98

As of December 31, 2006, the total unrecognized compensation cost related to unvested Liberty equity awards was approximately \$59 million. Such amount will be recognized in the Company's consolidated statements of operations over a weighted average period of approximately 2 years.

*Pro Forma Disclosure*

Prior to adoption of Statement 123R, the Company accounted for compensation expense related to its Awards pursuant to the recognition and measurement provisions of APB Opinion No. 25. All of the Company's Awards were accounted for as variable plan awards, and compensation was recognized based upon the percentage of the options that were vested and the intrinsic value of the options at the balance sheet date. The Company accounted for QVC Awards using fixed-plan accounting. The following table illustrates the effect on earnings from continuing operations and earnings per share for the years ended December 31, 2005 and 2004 as if the Company had applied the fair value recognition provisions of Statement 123 to its options. Compensation expense for SARs and options with tandem SARs was the same under APB Opinion No. 25 and Statement 123. Accordingly, no pro forma adjustment for such Awards is included in the following table.

	Years ended December 31,	
	2005	2004
	(amounts in millions, except per share amounts)	
Earnings (loss) from continuing operations	\$ (43)	105
Add stock compensation as determined under the intrinsic value method, net of taxes	2	2
Deduct stock compensation as determined under the fair value method, net of taxes	(42)	(41)
Pro forma earnings (loss) from continuing operations	<u>\$ (83)</u>	<u>66</u>
Basic and diluted earnings (loss) from continuing operations per share:		
As reported	\$(.02)	.04
Pro forma	<u>\$(.03)</u>	<u>.02</u>

*Impact of Spin Off Transactions*

In connection with the spin off of Liberty subsidiaries Liberty Media International ("LMI") and Discovery Holding Company ("DHC") in 2004 and 2005, respectively, certain employees of Liberty

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received LMI and DHC options. Liberty records compensation expense related to these awards based on the grant date fair value over the remaining vesting period.

***Income Taxes***

The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying value amounts and income tax bases of assets and liabilities and the expected benefits of utilizing net operating loss and tax credit carryforwards. The deferred tax assets and liabilities are calculated using enacted tax rates in effect for each taxing jurisdiction in which the company operates for the year in which those temporary differences are expected to be recovered or settled. Net deferred tax assets are then reduced by a valuation allowance if the Company believes it more-likely-than-not such net deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of an enacted change in tax rates is recognized in income in the period that includes the enactment date.

***Earnings (Loss) Per Common Share***

Basic earnings (loss) per common share ("EPS") is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding for the period. Diluted EPS presents the dilutive effect on a per share basis of potential common shares as if they had been converted at the beginning of the periods presented.

***Liberty Series A and Series B Common Stock***

The basic EPS calculation is based on 2,803 million weighted average outstanding shares of Liberty common stock for the period from January 1, 2006 to May 10, 2006, and 2,795 million and 2,856 million weighted average shares outstanding for the years ended December 31, 2005 and 2004, respectively. The diluted EPS calculation for the period from January 1, 2006 to May 10, 2006 and for the year ended December 31, 2004 includes 5 million and 14 million dilutive securities, respectively. However, due to the relative insignificance of these dilutive securities, their inclusion does not impact the EPS amount as reported in the accompanying consolidated statements of operations.

The cumulative effect of accounting change per common share for the period from January 1, 2006 to May 10, 2006 was a loss of \$0.03.

Earnings (loss) from discontinued operations per common share is as follows:

January 1, 2006 to May 10, 2006 .....	\$ —
Year ended December 31, 2005 .....	\$ —
Year ended December 31, 2004 .....	\$(.02)

***Liberty Capital Common Stock***

Liberty Capital EPS for the period from the Restructuring to December 31, 2006 was computed by dividing the net earnings attributable to the Capital Group by the weighted average outstanding shares of Liberty Capital common stock for the period (140 million). Due to the relative insignificance of the dilutive securities for such period, their inclusion does not impact the EPS amount. Excluded from

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diluted EPS for the period from the Restructuring to December 31, 2006 are approximately 3 million potential common shares because their inclusion would be anti-dilutive.

Earnings from discontinued operations per common share for the period from the Restructuring to December 31, 2006 is \$1.62.

*Liberty Interactive Common Stock*

Liberty Interactive EPS for the period from the Restructuring to December 31, 2006 was computed by dividing the net earnings attributable to the Interactive Group by the weighted average outstanding shares of Liberty Interactive common stock for the period (670 million). Due to the relative insignificance of the dilutive securities for such period, their inclusion does not impact the EPS amount. Excluded from diluted EPS for the period from the Restructuring to December 31, 2006 are approximately 13 million potential common shares because their inclusion would be anti-dilutive.

*Reclassifications*

Certain prior period amounts have been reclassified for comparability with the 2006 presentation.

*Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Liberty considers (i) the estimate of the fair value of its long-lived assets (including goodwill) and any resulting impairment charges, (ii) its accounting for income taxes, (iii) the fair value of its derivative instruments, (iv) its assessment of nontemporary declines in value of its investments and (v) its estimates of retail related adjustments and allowances to be its most significant estimates.

Liberty holds investments that are accounted for using the equity method. Liberty does not control the decision making process or business management practices of these affiliates. Accordingly, Liberty relies on management of these affiliates to provide it with accurate financial information prepared in accordance with GAAP that Liberty uses in the application of the equity method. In addition, Liberty relies on audit reports that are provided by the affiliates' independent auditors on the financial statements of such affiliates. The Company is not aware, however, of any errors in or possible misstatements of the financial information provided by its equity affiliates that would have a material effect on Liberty's consolidated financial statements.

*Recent Accounting Pronouncements*

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140" ("Statement 155"). Statement 155, among other things, amends Statement 133 and permits fair value remeasurement of hybrid financial instruments that contain an embedded derivative that otherwise would require bifurcation. Statement 155 is effective after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company intends to adopt the provisions of Statement 155 effective January 1, 2007 and account for its senior exchangeable debentures at fair value rather than bifurcating such debentures into a debt instrument and a derivative instrument as

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required by Statement 133. If the Company had adopted Statement 155 as of December 31, 2006, it would have recorded an increase to long-term debt of \$1.9 billion, a decrease to long-term derivative instruments of \$1.3 billion and an increase to accumulated deficit of \$600 million.

In June 2006, the FASB issued FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109"* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. While the Company has not completed its evaluation of the impact of FIN 48 on its financial statements, it believes that the application of FIN 48 will result in the derecognition of certain tax liabilities currently reflected in the Company's consolidated balance sheet with a corresponding decrease to the Company's accumulated deficit. The Company is unable to quantify the amount of these adjustments at this time.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *"Fair Value Measurements"* ("Statement 157"), which defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. Statement 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. Liberty is currently evaluating the potential impact of the adoption of Statement 157 on its consolidated balance sheet, statements of operations and comprehensive earnings (loss), and statements of cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115"* ("Statement 159"). Statement 159 permits entities to choose to measure many financial instruments, such as available-for-sale securities, and certain other items at fair value and to recognize the changes in fair value of such instruments in the entity's statement of operations. Currently under Statement of Financial Accounting Standards No. 115, entities are required to recognize changes in fair value of available-for-sale securities in the balance sheet in accumulated other comprehensive earnings. Statement 159 is effective as of the beginning of an entity's fiscal year that begins after November 15, 2007. Liberty is currently evaluating the potential impacts of Statement 159 on its financial statements and has not made a determination as to which of its financial instruments, if any, it will choose to apply the provisions of Statement 159.

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**(4) Supplemental Disclosures to Consolidated Statements of Cash Flows**

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Cash paid for acquisitions:			
Fair value of assets acquired . . . . .	\$1,494	1	79
Net liabilities assumed . . . . .	(227)	—	—
Deferred tax liabilities . . . . .	(48)	—	—
Minority interest . . . . .	(72)	—	12
Exchange of cost investment . . . . .	(235)	—	—
Common stock issued . . . . .	(36)	—	—
Cash paid for acquisitions, net of cash acquired . . . . .	<u>\$ 876</u>	<u>1</u>	<u>91</u>
Cash paid for interest . . . . .	<u>\$ 510</u>	<u>477</u>	<u>515</u>
Cash paid for income taxes . . . . .	<u>\$ 152</u>	<u>161</u>	<u>49</u>

**(5) Discontinued Operations**

*Sale of OpenTV Corp.*

In October 2006, Liberty entered into an agreement with an unaffiliated third party to sell Liberty's controlling interest in OpenTV Corp. ("OPTV") for cash consideration of \$132 million. As part of an agreement with OPTV, Liberty would pay up to \$20 million of the cash proceeds to OPTV on the first anniversary of the closing, subject to the satisfaction of certain conditions. The sale was consummated on January 16, 2007. OPTV was attributed to the Capital Group.

*Sale of Ascent Entertainment Group, Inc.*

In December 2006, Liberty entered into an agreement with an unaffiliated third party to sell Liberty's 100% ownership interest in Ascent Entertainment Group, Inc. ("AEG") for \$332 million in cash and 2.05 million shares of common stock of the buyer valued at approximately \$50 million. AEG's primary operating subsidiary is On Command Corporation. Consummation of the transaction is subject to customary closing conditions, including regulatory approval, and is expected to occur in mid-2007. Subsequent to the closing, if consummated, Liberty would own approximately 9.9% of the buyer's outstanding common stock. AEG was attributed to the Capital Group.

*Spin Off of Discovery Holding Company*

On July 21, 2005 (the "DHC Spin Off Date"), Liberty completed the spin off (the "DHC Spin Off") of DHC to its shareholders. The DHC Spin Off was effected as a dividend by Liberty to holders of its Series A and Series B common stock of shares of DHC Series A and Series B common stock, respectively. Holders of Liberty common stock on July 15, 2005 received 0.10 of a share of DHC Series A common stock for each share of Liberty Series A common stock owned and 0.10 of a share of DHC Series B common stock for each share of Liberty Series B common stock owned. The DHC Spin Off did not involve the payment of any consideration by the holders of Liberty common stock and is intended to qualify as a tax-free transaction. At the time of the DHC Spin Off, DHC's assets were



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comprised of Liberty's 100% ownership interest in Ascent Media Group, LLC, Liberty's 50% ownership interest in Discovery Communications, Inc. and \$200 million in cash.

Following the DHC Spin Off, DHC and Liberty operate independently, and neither has any stock ownership, beneficial or otherwise, in the other. In connection with the DHC Spin Off, DHC and Liberty entered into certain agreements in order to govern certain of the ongoing relationships between Liberty and DHC after the DHC Spin Off and to provide for an orderly transition. These agreements include a Reorganization Agreement, a Facilities and Services Agreement, a Tax Sharing Agreement and a Short-Term Credit Facility.

The DHC Reorganization Agreement provides for, among other things, the principal corporate transactions required to effect the DHC Spin Off and cross indemnities. Pursuant to the DHC Facilities and Services Agreement, Liberty provides DHC with office space and certain general and administrative services including legal, tax, accounting, treasury, engineering and investor relations support. DHC reimburses Liberty for direct, out-of-pocket expenses incurred by Liberty in providing these services and for DHC's allocable portion of facilities costs and costs associated with any shared services or personnel.

Under the DHC Tax Sharing Agreement, Liberty generally is responsible for U.S. federal, state and local and foreign income taxes owing with respect to consolidated returns which include both Liberty and DHC. DHC is responsible for all other taxes with respect to returns which include DHC, but do not include Liberty whether accruing before, on or after the DHC Spin Off. The DHC Tax Sharing Agreement requires that DHC will not take, or fail to take, any action where such action, or failure to act, would be inconsistent with or prohibit the DHC Spin Off from qualifying as a tax-free transaction. Moreover, DHC has indemnified Liberty for any loss resulting from such action or failure to act, if such action or failure to act precludes the DHC Spin Off from qualifying as a tax-free transaction.

***Spin Off of Liberty Media International, Inc.***

On June 7, 2004 (the "LMI Spin Off Date"), Liberty completed the spin off (the "LMI Spin Off") of its wholly-owned subsidiary, Liberty Media International, Inc., to its shareholders. Substantially all of the assets and businesses of LMI were attributed to Liberty's former International Group segment. In connection with the LMI Spin Off, holders of Liberty common stock on June 1, 2004 received 0.05 of a share of LMI Series A common stock for each share of Liberty Series A common stock owned and 0.05 of a share of LMI Series B common stock for each share of Liberty Series B common stock owned. The LMI Spin Off is intended to qualify as a tax-free spin off. For accounting purposes, the LMI Spin Off is deemed to have occurred on June 1, 2004, and no gain or loss was recognized by Liberty in connection with the LMI Spin Off due to the pro rata nature of the distribution.

Following the LMI Spin Off, LMI and Liberty operate independently. In connection with the LMI Spin Off, LMI and Liberty entered into certain agreements in order to govern certain of the ongoing relationships between Liberty and LMI after the LMI Spin Off and to provide for an orderly transition. These agreements include a Reorganization Agreement and a Tax Sharing Agreement.

The LMI Reorganization Agreement provided for, among other things, the principal corporate transactions required to effect the LMI Spin Off and cross indemnities.

Under the LMI Tax Sharing Agreement, Liberty generally is responsible for U.S. federal, state and local and foreign income taxes owing with respect to consolidated returns which include both Liberty

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and LMI. LMI is responsible for all other taxes with respect to returns which include LMI, but do not include Liberty whether accruing before, on or after the LMI Spin Off. The LMI Tax Sharing Agreement requires that LMI will not take, or fail to take, any action where such action, or failure to act, would be inconsistent with or prohibit the LMI Spin Off from qualifying as a tax-free transaction. Moreover, LMI has indemnified Liberty for any loss resulting from such action or failure to act, if such action or failure to act precludes the LMI Spin Off from qualifying as a tax-free transaction.

In the third quarter of 2005, Liberty filed its 2004 tax return and adjusted the amount of net operating loss and capital loss carryforwards allocated to LMI. Such adjustment resulted in an increase to Liberty's deferred income tax liabilities and a reduction of additional paid-in capital of \$28 million.

***DMX Music***

During the fourth quarter of 2004, the executive committee of the board of directors of Liberty approved a plan to dispose of Liberty's approximate 56% ownership interest in Maxide Acquisition, Inc. (d/b/a DMX Music, "DMX"). On February 14, 2005, DMX commenced proceedings under Chapter 11 of the United States Bankruptcy Code. DMX entered into an arrangement, subject to the approval by the Bankruptcy Court, to sell substantially all of its operating assets to an independent third party. On May 16, 2005, the Bankruptcy Court entered a written order approving the transaction, and the sale transaction was completed. As a result of the DMX Bankruptcy filing, Liberty deconsolidated DMX effective December 31, 2004. In connection with its decision to dispose of its ownership interest, Liberty recognized a \$23 million impairment loss to write down the carrying value of the net assets of DMX to their estimated fair value based upon the aforementioned arrangement to sell the assets. Such loss has been included in loss from discontinued operations in the accompanying consolidated financial statements for the year ended December 31, 2004.

The consolidated financial statements and accompanying notes of Liberty have been prepared reflecting OPTV, AEG, DHC, LMI and DMX as discontinued operations. Accordingly, the assets and liabilities, revenue, costs and expenses, and cash flows of these subsidiaries have been excluded from the respective captions in the accompanying consolidated balance sheets, statements of operations, statements of comprehensive earnings (loss) and statements of cash flows and have been reported separately in such consolidated financial statements.

Certain combined statement of operations information for OPTV, AEG, DHC, LMI and DMX, which is included in earnings (loss) from discontinued operations, is as follows:

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Revenue . . . . .	\$335	704	2,081
Loss before income taxes and minority interests . . . . .	\$(30)	(1)	(159)

Liberty's tax basis in the common stock of each of OPTV and AEG as of December 31, 2006 exceeds their respective carrying amounts reported for financial reporting purposes. As of December 31, 2006, Liberty has recognized a deferred tax asset of \$236 million for this excess tax basis with an offsetting deferred tax benefit, which is included in earnings from discontinued operations in the accompanying consolidated statement of operations. In 2004, Liberty recognized a similar deferred tax benefit of \$38 million related to its tax basis in DMX and reported such benefit in its income tax

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benefit for continuing operations for the year ended December 31, 2004. Liberty has revised its 2004 presentation to report the deferred tax benefit for DMX as a component of loss from discontinued operations.

**(6) Investments in Available-for-Sale Securities and Other Cost Investments**

Investments in AFS securities, which are recorded at their respective fair market values, and other cost investments are summarized as follows:

	December 31,	
	2006	2005
	(amounts in millions)	
Capital Group		
News Corporation .....	\$11,158	8,171
Time Warner Inc. ("Time Warner")(1) .....	3,728	2,985
Sprint Nextel Corporation ("Sprint")(2) .....	1,651	2,162
Motorola, Inc. ("Motorola")(3) .....	1,522	1,672
Other AFS equity securities(4) .....	830	964
Other AFS debt securities(5) .....	135	372
Other cost investments and related receivables .....	34	79
Total attributed Capital Group .....	<u>19,058</u>	<u>16,405</u>
Interactive Group		
IAC/InterActiveCorp ("IAC") .....	2,572	1,960
Other AFS securities .....	—	124
Total attributed Interactive Group .....	<u>2,572</u>	<u>2,084</u>
Consolidated Liberty .....	21,630	18,489
Less short-term investments .....	(8)	—
	<u>\$21,622</u>	<u>18,489</u>

- (1) Includes \$198 million and \$158 million of shares pledged as collateral for share borrowing arrangements at December 31, 2006 and 2005, respectively.
- (2) Includes \$170 million and \$94 million of shares pledged as collateral for share borrowing arrangements at December 31, 2006 and 2005, respectively.
- (3) Includes \$1,068 million and \$1,173 million of shares pledged as collateral for share borrowing arrangements at December 31, 2006 and 2005, respectively.
- (4) Includes \$46 million and \$156 million of shares pledged as collateral for share borrowing arrangements at December 31, 2006 and 2005, respectively.
- (5) At December 31, 2006, other AFS debt securities include \$127 million of investments in third-party marketable debt securities held by Liberty parent and \$8 million of such securities held by subsidiaries of Liberty. At December 31, 2005, such investments aggregated \$372 million and zero, respectively.

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***News Corporation***

In December 2006, Liberty announced that it had entered into an exchange agreement with News Corporation pursuant to which, if completed, Liberty would exchange its approximate 16.2% ownership interest in News Corporation for a subsidiary of News Corporation, which would own News Corporation's approximate 38.5% interest in The DirectTV Group, Inc., three regional sports television networks and approximately \$550 million in cash. Consummation of the exchange, which is subject to various closing conditions, including approval by News Corporation's shareholders, regulatory approval and receipt of a favorable ruling from the IRS confirming that the exchange is tax-free, is expected in mid 2007.

In November 2004, Liberty entered into total return equity swaps with a financial institution with respect to 92 million shares of News Corporation voting stock ("NWS"). Pursuant to the terms of the swap, the financial institution acquired the 92 million shares of NWS for Liberty's benefit for a weighted average strike price of \$17.48. In December 2004, Liberty elected to terminate the swaps. In connection with such termination, Liberty delivered 86.9 million shares of News Corporation non-voting stock ("NWSA") with a fair market value of \$1,608 million in exchange for the 92 million shares of NWS with a fair market value of \$1,749 million. Accordingly, Liberty recognized a pre-tax gain on the swap transaction of \$141 million, which is included in realized and unrealized gains on financial instruments and a pre-tax gain on the exchange of NWSA for NWS of \$710 million, which is included in gains on dispositions. At December 31, 2006, Liberty has an approximate 16.2% economic interest and an approximate 19.1% voting interest in News Corporation.

***IAC/InterActiveCorp***

Effective August 9, 2005, IAC completed the spin-off of its subsidiary, Expedia, Inc. ("Expedia"). Shareholders of IAC, including Liberty, received one share of Expedia for each share of IAC owned. Subsequent to the spin-off of Expedia, Liberty owned approximately 20% of the outstanding Expedia common stock representing a 52% voting interest. However, under existing governance arrangements, the Chairman of Expedia is currently entitled to vote Liberty's shares of Expedia, subject to certain limitations. As Liberty has appointed two out of ten members of Expedia's board of directors, it accounts for this investment using the equity method of accounting. Liberty allocated its pre-spin off carrying value in IAC between IAC and Expedia based on the relative trading prices of IAC and Expedia. Unrealized holding gains included in the carrying value allocated to Expedia were reversed as part of this allocation.

At December 31, 2006, Liberty owns approximately 24% of IAC common stock representing an approximate 57% voting interest. However, under existing governance arrangements, the Chairman of IAC is currently entitled to vote Liberty's shares, and due to the fact that Liberty has rights to appoint only two of thirteen members to the IAC board of directors, Liberty's ability to exert significant influence over IAC is limited at this time. Accordingly, Liberty accounts for this investment as an AFS security.

***Nontemporary Declines in Fair Value of Investments***

During the years ended December 31, 2006, 2005 and 2004, Liberty determined that certain of its AFS securities (including News Corporation in 2005) and cost investments experienced nontemporary declines in value. The primary factors considered by Liberty in determining the timing of the recognition for the majority of these impairments was the length of time the investments traded below

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Liberty's cost bases and the lack of near-term prospects for recovery in the stock prices. As a result, the carrying amounts of such investments were adjusted to their respective fair values based primarily on quoted market prices at the balance sheet date. These adjustments are reflected as nontemporary declines in fair value of investments in the consolidated statements of operations. The amount of nontemporary decline recognized for Liberty's News Corporation voting shares in 2005 was \$352 million.

***Unrealized Holdings Gains and Losses***

Unrealized holding gains and losses related to investments in AFS securities are summarized below.

	<u>December 31, 2006</u>		<u>December 31, 2005</u>	
	<u>Equity securities</u>	<u>Debt securities</u>	<u>Equity securities</u>	<u>Debt securities</u>
	(amounts in millions)			
Gross unrealized holding gains	\$9,335	—	5,459	17
Gross unrealized holding losses	\$ (1)	—	(27)	—

The aggregate fair value of securities with unrealized holding losses at December 31, 2006 was \$6 million. None of these securities had unrealized losses for more than 12 continuous months.

**(7) Financial Instruments**

The Company's financial instruments are summarized as follows:

<u>Type of derivative</u>	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
	(amounts in millions)	
<b>Assets</b>		
Equity collars	\$1,218	1,568
Put spread collars	—	133
Other	361	83
	1,579	1,784
Less current portion	(239)	(661)
	<u>\$1,340</u>	<u>1,123</u>
<b>Liabilities</b>		
Borrowed shares	\$1,482	1,581
Exchangeable debenture call option obligations	1,280	927
Put options	—	342
Equity collars	416	160
Other	12	16
	3,190	3,026
Less current portion	(1,484)	(1,939)
	<u>\$1,706</u>	<u>1,087</u>

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***Equity Collars and Put Options***

The Company has entered into equity collars, written put and call options and other financial instruments to manage market risk associated with its investments in certain marketable securities. These instruments are recorded at fair value based on option pricing models. Equity collars provide the Company with a put option that gives the Company the right to require the counterparty to purchase a specified number of shares of the underlying security at a specified price at a specified date in the future. Equity collars also provide the counterparty with a call option that gives the counterparty the right to purchase the same securities at a specified price at a specified date in the future. The put option and the call option generally have equal fair values at the time of origination resulting in no cash receipts or payments.

***Borrowed Shares***

From time to time and in connection with certain of its derivative instruments, Liberty borrows shares of the underlying securities from a counterparty and delivers these borrowed shares in settlement of maturing derivative positions. In these transactions, a similar number of shares that are owned by Liberty have been posted as collateral with the counterparty. These share borrowing arrangements can be terminated at any time at Liberty's option by delivering shares to the counterparty. The counterparty can terminate these arrangements at any time. The liability under these share borrowing arrangements is marked to market each reporting period with changes in value recorded in unrealized gains or losses in the consolidated statement of operations. The shares posted as collateral under these arrangements continue to be treated as AFS securities and are marked to market each reporting period with changes in value recorded as unrealized gains or losses in other comprehensive earnings.

***Exchangeable Debenture Call Option Obligations***

Liberty has issued senior exchangeable debentures which are exchangeable for the value of a specified number of shares of Sprint and Embarq Corporation common stock, Motorola common stock, Viacom Class B and CBS Corporation Class B common stock or Time Warner common stock, as applicable. (See note 9 for a more complete description of the exchangeable debentures.)

Under Statement 133, the call option feature of the exchangeable debentures is reported separately from the long-term debt portion in Liberty's consolidated balance sheets at fair value. Changes in the fair value of the call option obligations are recognized as unrealized gains (losses) on derivative instruments in Liberty's consolidated statements of operations.

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***Realized and Unrealized Gains (Losses) on Financial Instruments***

Realized and unrealized gains (losses) on financial instruments are comprised of changes in the fair value of the following:

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Exchangeable debenture call option obligations . . . . .	\$(353)	172	(129)
Equity collars . . . . .	(59)	311	(941)
Borrowed shares . . . . .	(32)	(205)	(227)
Put options . . . . .	—	(66)	2
Other derivatives . . . . .	165	45	11
	<u>\$(279)</u>	<u>257</u>	<u>(1,284)</u>

**(8) Investments in Affiliates Accounted for Using the Equity Method**

Liberty has various investments accounted for using the equity method. The following table includes Liberty's carrying amount and percentage ownership of the more significant investments in affiliates at December 31, 2006 and the carrying amount at December 31, 2005:

	December 31, 2006		December 31, 2005
	Percentage ownership	Carrying amount	Carrying amount
	(dollar amounts in millions)		
Expedia . . . . .	21%	\$1,254	1,213
GSN . . . . .	50%	253	255
Court TV . . . . .	N/A	—	297
Other . . . . .	various	335	143
		<u>\$1,842</u>	<u>1,908</u>

***Expedia***

IAC completed the spin off of Expedia on August 9, 2005. Accordingly, the Company recorded its share of earnings of Expedia for the five months ended December 31, 2005. The fair value of the

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Company's investment in Expedia was \$1,452 million and \$1,659 million at December 31, 2006 and 2005, respectively. Summarized unaudited financial information for Expedia is as follows:

**Consolidated Balance Sheets**

	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(amounts in millions)</b>	
Current assets . . . . .	\$1,183	590
Property and equipment . . . . .	137	91
Goodwill . . . . .	5,861	5,860
Intangible assets . . . . .	1,029	1,177
Other assets . . . . .	59	39
Total assets . . . . .	<u>\$8,269</u>	<u>7,757</u>
Current liabilities . . . . .	\$1,400	1,438
Deferred income taxes . . . . .	369	369
Other liabilities . . . . .	534	144
Minority interest . . . . .	62	72
Stockholders' equity . . . . .	<u>5,904</u>	<u>5,734</u>
Total liabilities and equity . . . . .	<u>\$8,269</u>	<u>7,757</u>

**Consolidated Statements of Operations**

	<b>Years ended December 31,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(amounts in millions)</b>	
Revenue . . . . .	\$2,238	2,119
Cost of revenue . . . . .	(503)	(480)
Gross profit . . . . .	1,735	1,639
Selling, general and administrative expenses . . . . .	(1,273)	(1,116)
Amortization . . . . .	(111)	(126)
Operating income . . . . .	351	397
Interest income . . . . .	32	51
Other income (expense) . . . . .	1	(33)
Income tax expense . . . . .	(139)	(186)
Net earnings . . . . .	<u>\$ 245</u>	<u>229</u>



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**(9) Long-Term Debt**

Debt is summarized as follows:

	Outstanding principal December 31, 2006	Carrying value December 31, 2006	2005
	(amounts in millions)		
<b>Capital Group</b>			
Senior exchangeable debentures			
4% Senior Exchangeable Debentures due 2029	\$ 869	254	251
3.75% Senior Exchangeable Debentures due 2030	810	234	231
3.5% Senior Exchangeable Debentures due 2031	600	238	235
3.25% Senior Exchangeable Debentures due 2031	551	119	117
0.75% Senior Exchangeable Debentures due 2023	1,750	1,637	1,552
Subsidiary debt	158	158	37
Total attributed Capital Group	<u>4,738</u>	<u>2,640</u>	<u>2,423</u>
<b>Interactive Group</b>			
Senior notes and debentures			
3.5% Senior Notes due 2006	—	—	121
Floating Rate Senior Notes due 2006	—	—	1,247
7.875% Senior Notes due 2009	670	667	666
7.75% Senior Notes due 2009	234	234	235
5.7% Senior Notes due 2013	802	800	800
8.5% Senior Debentures due 2029	500	495	495
8.25% Senior Debentures due 2030	902	895	895
QVC bank credit facilities	3,225	3,225	800
Other subsidiary debt	67	67	67
Total attributed Interactive Group	<u>6,400</u>	<u>6,383</u>	<u>5,326</u>
Total consolidated Liberty	<u>\$11,138</u>	9,023	7,749
Less current maturities		(114)	(1,379)
Total long-term debt		<u>\$8,909</u>	<u>6,370</u>

***Senior Notes and Debentures***

Interest on the Senior Notes and Senior Debentures is payable semi-annually based on the date of issuance.

The Senior Notes and Senior Debentures are stated net of an aggregate unamortized discount of \$17 million at each of December 31, 2006 and 2005. Such discount is being amortized to interest expense in the accompanying consolidated statements of operations.

***Senior Exchangeable Debentures***

Each \$1,000 debenture of Liberty's 4% Senior Exchangeable Debentures is exchangeable at the holder's option for the value of 11.4743 shares of Sprint common stock and .5737 shares of Embarq

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Corporation ("Embarq"), which Sprint spun off to its shareholders in May 2006. Liberty may, at its election, pay the exchange value in cash, Sprint and Embarq common stock or a combination thereof. Liberty, at its option, may redeem the debentures, in whole or in part, for cash generally equal to the face amount of the debentures plus accrued interest.

Each \$1,000 debenture of Liberty's 3.75% Senior Exchangeable Debentures is exchangeable at the holder's option for the value of 8.3882 shares of Sprint common stock and .4194 shares of Embarq common stock. Liberty may, at its election, pay the exchange value in cash, Sprint and Embarq common stock or a combination thereof. Liberty, at its option, may redeem the debentures, in whole or in part, for cash equal to the face amount of the debentures plus accrued interest.

Each \$1,000 debenture of Liberty's 3.5% Senior Exchangeable Debentures (the "Motorola Exchangeables") is exchangeable at the holder's option for the value of 36.8189 shares of Motorola common stock and, prior to the cash distribution described below, 4.0654 shares of Freescale Semiconductor, Inc. ("Freescale"), which Motorola spun off to its shareholders in December 2004. Such exchange value is payable, at Liberty's option, in cash, Motorola stock or a combination thereof. Liberty, at its option, may redeem the debentures, in whole or in part, for cash generally equal to the adjusted principal amount of the debentures plus accrued interest. As a result of the cash distribution described below, the adjusted principal amount of each \$1,000 debenture is \$837.38. Effective December 1, 2006, a consortium of private equity firms purchased all of the common stock of Freescale, including the Freescale common stock owned by Liberty. Pursuant to the terms of the indenture covering the Motorola Exchangeables, Liberty announced that it would make a cash distribution of \$162.62 per \$1,000 bond to holders of such bonds. Such distribution was made in January 2007, and Liberty reduced its outstanding debt by \$97.6 million.

Each \$1,000 debenture of Liberty's 3.25% Senior Exchangeable Debentures is exchangeable at the holder's option for the value of 9.2833 shares of Viacom Class B common stock and 9.2833 shares of CBS Corporation ("CBS") Class B common stock, which Viacom spun off to its shareholders in December 2005. Such exchange value is payable at Liberty's option in cash, Viacom and CBS stock or a combination thereof. Liberty, at its option, may redeem the debentures, in whole or in part, for cash equal to the face amount of the debentures plus accrued interest.

Each \$1,000 debenture of Liberty's 0.75% Senior Exchangeable Debentures is exchangeable at the holder's option for the value of 57.4079 shares of Time Warner common stock. Liberty may, at its election, pay the exchange value in cash, Time Warner common stock, shares of Liberty common stock or a combination thereof. On or after April 5, 2008, Liberty, at its option, may redeem the debentures, in whole or in part, for shares of Time Warner common stock, cash or any combination thereof equal to the face amount of the debentures plus accrued interest. On March 30, 2008, March 30, 2013 or March 30, 2018, each holder may cause Liberty to purchase its exchangeable debentures, and Liberty, at its election, may pay the purchase price in shares of Time Warner common stock, cash, Liberty common stock, or any combination thereof.

Interest on the Company's exchangeable debentures is payable semi-annually based on the date of issuance. At maturity, all of the Company's exchangeable debentures are payable in cash.

In accordance with Statement 133, the call option feature of the exchangeable debentures is reported at fair value and separately from the long-term debt in the consolidated balance sheet. The reported amount of the long-term debt portion of the exchangeable debentures is calculated as the difference between the face amount of the debentures and the fair value of the call option feature on

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the date of issuance. The long-term debt is accreted to its face amount over the expected term of the debenture using the effective interest method. Accordingly, at December 31, 2006, the difference between the principal amount and the carrying value of the long-term debt portion is the unamortized fair value of the call option feature that was recorded at the date of issuance of the respective debentures. Accretion related to the Company's exchangeable debentures aggregated \$95 million, \$89 million and \$83 million during the years ended December 31, 2006, 2005 and 2004, respectively, and is included in interest expense in the accompanying consolidated statements of operations.

***QVC Bank Credit Facilities***

Effective May 20, 2005, QVC entered into an unsecured \$2 billion bank credit facility. In March 2006, such facility was refinanced with a new unsecured \$3.5 billion bank credit facility, which was subsequently amended on October 4, 2006 (the "March 2006 Credit Agreement"). The March 2006 Credit Agreement is comprised of an \$800 million U.S. dollar term loan that was drawn at closing, an \$800 million U.S. dollar term loan that was drawn on September 18, 2006, a \$600 million multi-currency term loan that was drawn in U.S. dollars on September 18, 2006, a \$650 million U.S. dollar revolving loan and a \$650 million multi-currency revolving loan. The foregoing multi-currency loans can be made, at QVC's option, in U.S. dollars, Japanese yen, U.K. pound sterling or euros. All loans are due and payable on March 3, 2011, and accrue interest at a rate equal to (i) LIBOR for the interest period selected by QVC plus a margin that varies based on QVC's leverage ratio or (ii) the higher of the Federal Funds Rate plus 0.50% or the prime rate announced by JP Morgan Chase Bank, N.A. from time to time. The weighted average interest rate for all borrowings under the March 2006 Credit Agreement at December 31, 2006 was 6.11%. QVC is required to pay a commitment fee quarterly in arrears on the unused portion of the commitments.

On October 4, 2006, QVC entered into a new credit agreement (the "October 2006 Credit Agreement"), which provides for an additional unsecured \$1.75 billion credit facility, consisting of an \$800 million initial term loan made on October 13, 2006 and \$950 million of delayed draw term loans to be made from time to time upon the request of QVC. The delayed draw term loans are available until September 30, 2007 and are subject to reductions in the principal amount available starting on March 31, 2007. The loans bear interest at a rate equal to (i) LIBOR for the interest period selected by QVC plus a margin that varies based on QVC's leverage ratio or (ii) the higher of the Federal Funds Rate plus 0.50% or the prime rate announced by Wachovia Bank, N.A. from time to time. The weighted average interest rate for all borrowings under the October 2006 Credit Agreement at December 31, 2006 was 6.10%. QVC is required to pay a commitment fee quarterly in arrears on the unused portion of the commitments. The loans are scheduled to mature on October 4, 2011.

The March 2006 Credit Agreement and the October 2006 Credit Agreement contain restrictive covenants, which require among other things, the maintenance of certain financial ratios and include limitations on indebtedness, liens, encumbrances, dispositions, guarantees and dividends. QVC was in compliance with its debt covenants at December 31, 2006. QVC's ability to borrow the unused portion of its credit agreements is dependent on its continuing compliance with such covenants both before and after giving effect to such additional borrowing.

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***QVC Interest Rate Swap Arrangements***

During 2006, QVC entered into seven separate interest rate swap arrangements with an aggregate notional amount of \$1,400 million to manage the cash flow risk associated with interest payments on its variable rate debt. The swap arrangements provide for QVC to make fixed payments at a rate of 4.9575% and to receive variable payments at 3 month LIBOR. QVC also entered into three separate interest rate swap arrangements with an aggregate notional amount of \$800 million. These swap arrangements provide for QVC to make fixed payments at a rate of 5.2928% and to receive variable payments at 3 month LIBOR. All of the swap arrangements expire in March 2011 contemporaneously with the maturity of the March 2006 Credit Agreement. Liberty accounts for the swap arrangements as cash flow hedges with the effective portions of changes in the fair value reflected in other comprehensive earnings in the accompanying consolidated balance sheet.

***Other Subsidiary Debt***

Other subsidiary debt at December 31, 2006 is comprised of capitalized satellite transponder lease obligations and Starz Media bank debt.

***Five Year Maturities***

The U.S. dollar equivalent of the annual principal maturities of Liberty's debt for each of the next five years is as follows (amounts in millions):

2007	\$ 114
2008	\$1,768
2009	\$ 969
2010	\$ 69
2011	\$3,240

***Fair Value of Debt***

Liberty estimates the fair value of its debt based on the quoted market prices for the same or similar issues or on the current rate offered to Liberty for debt of the same remaining maturities. The fair value of Liberty's publicly traded debt is as follows:

	December 31,	
	2006	2005
	(amounts in millions)	
Fixed rate senior notes	\$1,678	1,838
Senior debentures	\$1,422	1,347
Senior exchangeable debentures, including call option obligation	\$4,361	3,858

Liberty believes that the carrying amount of its subsidiary debt, which is primarily variable rate debt, approximated fair value at December 31, 2006.

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**(10) Income Taxes**

Income tax benefit (expense) consists of:

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Current:			
Federal .....	\$(513)	(100)	(178)
State and local .....	(92)	(75)	(61)
Foreign .....	(112)	(88)	(114)
	<u>(717)</u>	<u>(263)</u>	<u>(353)</u>
Deferred:			
Federal .....	362	219	123
State and local .....	99	172	63
Foreign .....	4	(2)	8
	<u>465</u>	<u>389</u>	<u>194</u>
Income tax benefit (expense) .....	<u>\$(252)</u>	<u>126</u>	<u>(159)</u>

Income tax benefit (expense) differs from the amounts computed by applying the U.S. federal income tax rate of 35% as a result of the following:

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Computed expected tax benefit (expense) .....	\$(336)	59	(92)
Change in estimated foreign and state tax rates .....	130	147	2
State and local income taxes, net of federal income taxes .....	(34)	7	(4)
Foreign taxes, net of foreign tax credits .....	(20)	(31)	(47)
Change in valuation allowance affecting tax expense .....	76	(40)	(3)
Impairment of goodwill not deductible for tax purposes .....	(39)	—	—
Disposition of nondeductible goodwill in sales transaction .....	(43)	—	—
Minority interest .....	(10)	(10)	(6)
Dividends received deduction .....	12	12	—
Disqualifying disposition of incentive stock options not deductible for book purposes .....	14	—	—
Other, net .....	(2)	(18)	(9)
Income tax benefit (expense) .....	<u>\$(252)</u>	<u>126</u>	<u>(159)</u>

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The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities are presented below:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
	(amounts in millions)	
Deferred tax assets:		
Net operating and capital loss carryforwards . . . . .	\$ 470	513
Accrued stock compensation . . . . .	79	90
Other future deductible amounts . . . . .	485	399
Deferred tax assets . . . . .	1,034	1,002
Valuation allowance . . . . .	(93)	(155)
Net deferred tax assets . . . . .	<u>941</u>	<u>847</u>
Deferred tax liabilities:		
Investments . . . . .	6,885	6,048
Intangible assets . . . . .	2,362	2,523
Discount on exchangeable debentures . . . . .	981	1,006
Other . . . . .	369	89
Deferred tax liabilities . . . . .	<u>10,597</u>	<u>9,666</u>
Net deferred tax liabilities . . . . .	<u>\$9,656</u>	<u>8,819</u>

The Company's deferred tax assets and liabilities are reported in the accompanying consolidated balance sheets as follows:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
	(amounts in millions)	
Current deferred tax asset . . . . .	\$ (128)	(46)
Current deferred tax liabilities . . . . .	—	169
Long-term deferred tax liabilities . . . . .	<u>9,784</u>	<u>8,696</u>
Net deferred tax liabilities . . . . .	<u>\$9,656</u>	<u>8,819</u>

The Company's valuation allowance decreased \$76 million in 2006 related to the recognition of a tax benefit and increased \$14 million due to acquisitions.

At December 31, 2006, Liberty had net operating and capital loss carryforwards for income tax purposes aggregating approximately \$893 million which, if not utilized to reduce taxable income in future periods, will expire as follows: 2009: \$351 million; 2011: \$169 million and beyond 2011: \$373 million. Of the foregoing net operating and capital loss carryforward amount, approximately \$288 million is subject to certain limitations and may not be currently utilized. The remaining \$605 million is currently available to be utilized to offset future taxable income of Liberty's consolidated tax group.

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Since the date Liberty issued its exchangeable debentures, it has claimed interest deductions on such exchangeable debentures for federal income tax purposes based on the "comparable yield" at which it could have issued a fixed-rate debenture with similar terms and conditions. In all instances, this policy has resulted in Liberty claiming interest deductions significantly in excess of the cash interest currently paid on its exchangeable debentures. In this regard, Liberty has deducted \$2,218 million in cumulative interest expense associated with the exchangeable debentures since the Company's 2001 split off from AT&T Corp. ("AT&T"). Of that amount, \$629 million represents cash interest payments. Interest deducted in prior years on its exchangeable debentures has contributed to net operating losses ("NOLs") that may be carried to offset taxable income in 2006 and later years. These NOLs and current interest deductions on its exchangeable debentures are being used to offset taxable income currently being generated.

The IRS has issued Technical Advice Memorandums ("TAMs") challenging the current deductibility of interest expense claimed on exchangeable debentures issued by other companies. The TAMs conclude that such interest expense must be capitalized as basis to the shares referenced in the exchangeable debentures. If the IRS were to similarly challenge Liberty's tax treatment of these interest deductions, and ultimately win such challenge, there would be no impact to Liberty's reported total tax expense as the resulting increase in current tax expense would be offset by a decrease in its deferred tax expense. However, Liberty would be required to make current federal income tax payments and may be required to make interest payments to the IRS. These payments could prove to be significant.

**(11) Stockholders' Equity**

***Preferred Stock***

Liberty's preferred stock is issuable, from time to time, with such designations, preferences and relative participating, optional or other rights, qualifications, limitations or restrictions thereof, as shall be stated and expressed in a resolution or resolutions providing for the issue of such preferred stock adopted by Liberty's Board of Directors. As of December 31, 2006, no shares of preferred stock were issued.

***Common Stock***

Liberty's Capital Series A common stock and Interactive Series A common stock each has one vote per share, and its Capital Series B common stock and Interactive Series B common stock each has ten votes per share. Each share of the Series B common stock is exchangeable at the option of the holder for one share of Series A common stock of the same group.

As of December 31, 2006, there were 2.3 million and 1.5 million shares of Liberty Capital Series A common stock and Series B common stock, respectively, reserved for issuance under exercise privileges of outstanding stock options.

As of December 31, 2006, there were 21.5 million and 7.5 million shares of Liberty Interactive Series A common stock and Series B common stock, respectively, reserved for issuance under exercise privileges of outstanding stock options.

In addition to the Liberty Capital Series A and Series B common stock and the Liberty Interactive Series A and Series B common stock, there are 300 million and 1,500 million shares of Liberty Capital Series C and Liberty Interactive Series C common stock, respectively, authorized for issuance. As of December 31, 2006, no shares of either Series C common stock were issued or outstanding.

**LIBERTY MEDIA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**December 31, 2006, 2005 and 2004**

Prior to the Restructuring, the Company retired the 10,000,000 shares of Liberty Series B common stock held in treasury and returned them to the status of authorized and available for issuance.

***Purchases of Common Stock***

During the period from May 10, 2006 to December 31, 2006, the Company repurchased 51.6 million shares of Liberty Interactive Series A common stock in the open market for aggregate cash consideration of \$954 million. Such shares were repurchased pursuant to a previously announced share repurchase program and have been retired and returned to the status of authorized and available for issuance.

During the period from May 10, 2006 to December 31, 2006, the Company sold put options on Liberty Capital Series A common stock and Liberty Interactive Series A common stock for aggregate cash proceeds of approximately \$7 million. All such put options expired out of the money prior to December 31, 2006. The Company accounted for these put options pursuant to Statement of Financial Accounting Standards No. 150, *"Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity."* Accordingly, the put options were recorded in derivative instrument liabilities at fair value and changes in the fair value are included in realized and unrealized gains (losses) on financial instruments in the accompanying consolidated statement of operations.

During 2005, Liberty sold put options with respect to shares of its Series A common stock for net cash proceeds of \$2 million. All such puts expired out of the money in 2006.

During the year ended December 31, 2004, the Company acquired approximately 96.0 million shares of its Series B common stock from the estate and family of the late founder of Liberty's former parent in exchange for approximately 105.4 million shares of Liberty Series A common stock.

On July 28, 2004, Liberty completed a transaction with Comcast pursuant to which Liberty repurchased 120.3 million shares of its Series A common stock (valued at \$1,017 million) held by Comcast in exchange for 100% of the stock of Encore ICCP, Inc. ("Encore ICCP"), a wholly owned subsidiary of Liberty. At the time of the exchange, Encore ICCP held Liberty's 10% ownership interest in E! Entertainment Television, Liberty's 100% ownership interest in International Channel Networks, all of Liberty's rights, benefits and obligations under a TCI Music contribution agreement, and \$547 million in cash. The transaction also resolved all litigation pending between Comcast and Liberty regarding the TCI Music contribution agreement, to which Comcast succeeded as part of its acquisition of AT&T Broadband in November of 2002. In connection with this transaction, Liberty recognized a pre-tax gain on disposition of assets of \$387 million.

During 2004, Liberty entered into zero-strike call spreads ("Z-Call") with respect to six million shares of its Series A common stock. Liberty net cash settled all of its Z-calls during the first quarter of 2005 for net cash proceeds of \$63 million, which primarily represented the return of collateral posted by Liberty in 2004. Liberty accounts for the Z-Calls pursuant to Statement No. 150. Changes in the fair value of the Z-Calls are included in realized and unrealized gains (losses) on derivative instruments in the accompanying consolidated statement of operations.



**LIBERTY MEDIA CORPORATION AND SUBSIDIARIES**  
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**December 31, 2006, 2005 and 2004**

**(12) Transactions with Officers and Directors**

***Chairman's Employment Agreement***

The Chairman's employment agreement provides for, among other things, deferral of a portion (not in excess of 40%) of the monthly compensation payable to him for all employment years commencing on or after January 1, 1993. The deferred amounts will be payable in monthly installments over a 20-year period commencing on the termination of the Chairman's employment, together with interest thereon at the rate of 8% per annum compounded annually from the date of deferral to the date of payment. The aggregate liability under this arrangement at December 31, 2006 is \$2.0 million, and is included in other liabilities in the accompanying consolidated balance sheet.

The Chairman's employment agreement also provides that in the event of termination of his employment with Liberty, he will be entitled to receive 240 consecutive monthly payments equal to \$15,000 increased at the rate of 12% per annum compounded annually from January 1, 1988 to the date payment commences (\$115,350 per month as of December 31, 2006). Such payments would commence on the first day of the month succeeding the termination of employment. In the event of the Chairman's death, his beneficiaries would be entitled to receive the foregoing monthly payments. The aggregate liability under this arrangement at December 31, 2006 is \$27.7 million, and is included in other liabilities in the accompanying consolidated balance sheet.

The Company's Chairman deferred a portion of his monthly compensation under his previous employment agreement with Tele-Communications, Inc. ("TCI"). The Company assumed the obligation to pay that deferred compensation in connection with the TCI/AT&T Merger in 1999. The deferred obligation (together with interest at the rate of 13% per annum compounded annually), which aggregated \$15.7 million at December 31, 2006 and is included in other liabilities in the accompanying consolidated balance sheets, is payable on a monthly basis, following the occurrence of specified events, under the terms of the previous employment agreement. The rate at which interest accrues on the deferred obligation was established in 1983 pursuant to the previous employment agreement.

***Other***

In September 2000, certain officers of Liberty purchased a 6% common stock interest in a subsidiary for \$1.3 million. Such subsidiary owned an indirect interest in an entity that held certain of Liberty's investments in satellite and technology related assets. Liberty and the officers entered into a shareholders agreement in which the officers could require Liberty to purchase, after five years, all or part of their common stock interest in exchange for Liberty Series A stock at the then fair market value. In addition, Liberty had the right to purchase, in exchange for Liberty Series A common stock, the common stock interests held by the officers at fair market value at any time. During 2001, two of the officers resigned their positions with the Company, and the Company purchased their respective interests in the subsidiary for the original purchase price plus 6% interest. In December 2005, Liberty redeemed all of the remaining shares of common stock of the subsidiary from the officers for aggregate cash proceeds of \$80.

**(13) Stock Options and Stock Appreciation Rights**

***Liberty—Incentive Plans***

Pursuant to the Liberty Media Corporation 2000 Incentive Plan, as amended from time to time (the "Liberty Incentive Plan"), the Company has granted to certain of its employees stock options,